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APPLICATION OF SOUTHWESTERN § BEFORE THE STATE OFFICE
ELECTRIC POWER COMPANY FOR § OF
AUTHORITY TO CHANGE RATES § ADMINISTRATIVE HEARINGS

**CROSS-REBUTTAL TESTIMONY OF
JAMES W. DANIEL ON BEHALF OF NUCOR STEEL LONGVIEW, LLC**

COMES NOW, Nucor Steel Longview, LLC, a division of Nucor Corporation, and files
the Cross-Rebuttal Testimony of James W. Daniel on behalf of Nucor Steel Longview, LLC.

Respectfully submitted,

STONE MATTHEIS XENOPOULOS & BREW, PC

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**AUTHORIZED REPRESENTATIVES FOR
NUCOR STEEL LONGVIEW, LLC**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was
served via electronic transmission, hand delivery and/or U.S. mail to all parties of record this 23rd
day of April 2021.

/s/ Joseph R. Briscar

Joseph R. Briscar

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NUCOR STEEL LONGVIEW, LLC

APRIL 23, 2021

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CROSS-REBUTTAL TESTIMONY OF JAMES W. DANIEL

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is James W. Daniel.

Q. ARE YOU THE SAME JAMES W. DANIEL THAT PREVIOUSLY FILED DIRECT TESTIMONY IN THIS DOCKET ON BEHALF OF NUCOR STEEL LONGVIEW, LLC (“NUCOR”)?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

A. The purpose of my cross-rebuttal testimony is to rebut the direct testimony of the intervenors and Commission Staff as it relates to issues 52, 53, 55, and 58 of the Preliminary Order. Based upon my review, I present cross-rebuttal testimony on certain issues raised by other parties that do not provide acceptable solutions to those Preliminary Order issues.

Q. WHAT ARE PRELIMINARY ORDER ISSUES 52, 53, 55, AND 58?

A. As stated in the Preliminary Order, these issues are:

52. What are the just and reasonable rates calculated in accordance with PURA and Commission Rules? Do the rates comport with the requirements in PURA § 36.003?

53. What are the appropriate rate classes for which rates should be determined? Is SWEPCO proposing new rate classes? If so, why are these new rate classes needed?

55. What are the appropriate allocations of SWEPCO’s revenue requirement to jurisdictions, functions, and rate classes?

- 1 a. What is the appropriate allocation of SWEPCO's expenses, invested
2 capital, and revenue to Texas retail customers?
3 b. Does SWEPCO have any customer-specific contracts for the
4 provision of transmission or distribution service? If so, identify each
5 customer, and state whether the contract has been presented to the
6 Commission for approval, and if so, in what docket. In addition, has
7 SWEPCO appropriately allocated revenues and related costs
8 associated with such contracts? Do all allocation factors properly
9 reflect the types of costs allocated?
10 c. What are the appropriate allocations of SWEPCO's transmission
11 investment, expenses, and revenues, including transmission expenses
12 and revenues under FERC-approved tariffs, among jurisdictions?
13 d. Does SWEPCO have any FERC-approved tariffs? If so, identify
14 each tariff and the FERC docket in which the tariff was approved.
15 What are the appropriate allocations of SWEPCO's transmission
16 investment, expenses, and revenues, including transmission expenses
17 and revenues under those tariffs? Has SWEPCO made appropriate
18 allocations for import to and exports from Electric Reliability
19 Council of Texas ("ERCOT")?

20 58. Are all rate classes at unity? If not, what is the magnitude of the deviation,
21 and what, if anything should be done to address the lack of unity?

22 **Q. WOULD YOU PLEASE SUMMARIZE THE RESULTS OF YOUR REVIEW AND**
23 **ANALYSIS?**

24 A. Yes. With the exception of Eastman Chemical Company, the Sierra Club, and East Texas
25 Electric Cooperative, Inc. and Northeast Texas Electric Cooperative, Inc.
26 ("ETEC/NTEC"), all parties that filed direct testimony have filed testimony on a proposed
27 distribution of the approved overall revenue increase among the rate classes or have
28 adopted SWEPCO's proposed revenue distribution. Their testimony discusses moving
29 class revenue levels toward their cost of service and limiting the increase to some rate

1 classes through the application of various gradualism proposals. My cross-rebuttal
2 testimony focuses on problems or issues with these proposed revenue distribution
3 methodologies. My cross-rebuttal testimony also addresses the cost allocation and rate
4 design testimony of Texas Industrial Energy Consumers (“TIEC”) and the Commission
5 Staff.

6 Based upon my review and analysis, I have reached the following conclusions and
7 recommendations:

- 8 (1) In order to achieve the objective of moving to cost based rates, the
9 Commission should adopt a revenue distribution to each individual rate
10 class, or sub-class, rather than to broad groups of customer classes.
- 11 (2) The revenue distribution methodologies recommended or utilized by East
12 Texas Salt Water Disposal (“ETSWD”), Walmart, Office of Public Utility
13 Counsel (“OPUC”), and Cities Advocating Reasonable Deregulation
14 (“CARD”) should be rejected.
- 15 (3) As discussed in my direct testimony, and as supported by Staff and TIEC in
16 this case, the Commission should approve a revenue distribution
17 methodology that incorporates the following basic objectives:
 - 18 a. The revenue distribution should be specific to each customer class
19 in the class cost of service study rather than to broad groups of
20 customers;
 - 21 b. The revenue distribution should result in customer class revenue
22 levels that equal their cost of service or that make a significant move
23 toward their cost of service, to the extent practical;
 - 24 c. In situations where moving completely to the cost of service results
25 in a substantial rate increase for a customer class, gradualism should

1 be applied in order to alleviate the rate increase; and

2 d. Any revenue shortfall due to the application of gradualism should
3 be appropriately spread to other customer classes.

4 (4) The Commission Staff's proposed revenue distribution methodology
5 incorporates the principles listed in (3) above and, except for the four-year
6 phase-in aspect, is acceptable.

7 (5) TIEC's proposed revenue distribution methodology appears to mostly
8 incorporate the principles listed in (3) above. However, it is not entirely
9 clear how TIEC would determine all intra-class revenue distributions.

10 (6) SWEPCO's existing rate classes should be maintained.

11 **II. CROSS-REBUTTAL ON CLASS REVENUE DISTRIBUTION**

12 **Q. DID ANY INTERVENORS IN THIS CASE FILE DIRECT TESTIMONY THAT**
13 **DID NOT ADDRESS THE CUSTOMER CLASS REVENUE DISTRIBUTION**
14 **ISSUE?**

15 A. Yes. Eastman Chemical, the Sierra Club, and ETEC/NTEC did not file testimony on the
16 customer class revenue distribution methodology or issue.

17 **Q. WHICH INTERVENORS FILED TESTIMONY THAT ACCEPTED SWEPCO'S**
18 **PROPOSED REVENUE DISTRIBUTION METHODOLOGY?**

19 A. OPUC, ETSWD, Walmart, and CARD all filed testimony that accepted or used SWEPCO's
20 proposed customer class revenue distribution methodology. For CARD and ETSWD, it is
21 not clear if they are recommending SWEPCO's methodology or if they just utilized
22 SWEPCO's class cost of service study ("COSS") to show the impact of their recommended
23 revenue requirement reductions to the Company's proposed revenue distribution. Also,
24 Walmart would only use the Company's proposed revenue distribution if the Commission
25 approved SWEPCO's entire proposed revenue increase.

1 **Q. DO YOU HAVE ANY ISSUES OR PROBLEMS WITH ACCEPTING OR USING**
2 **SWEPCO'S PROPOSED REVENUE DISTRIBUTION METHODOLOGY?**

3 A. Yes. In my direct testimony previously filed in this case, I discuss various flaws or
4 problems with SWEPCO's revenue distribution methodology and recommend that it not
5 be approved. That same criticism applies to the positions taken by OPUC, ETSWD,
6 Walmart, and CARD. I will not repeat that criticism in my cross-rebuttal testimony as it
7 appears on pages 6 through 14 and pages 16 and 17 of my direct testimony.

8 **Q. DO YOU HAVE ANY COMMENTS REGARDING TIEC'S DIRECT TESTIMONY**
9 **RELATED TO THE REVENUE DISTRIBUTION TO CUSTOMER CLASSES?**

10 A. Yes. TIEC witness Jeffry Pollock's direct testimony addresses the revenue distribution to
11 customer classes. With regard to the revenue distribution to rate schedule classes, Mr.
12 Pollock and I have very similar positions on how the customer class revenue distribution
13 should be determined—that is to set the rate classes' revenue levels equal to their allocated
14 cost of service except in the few, minor situations that would result in substantial rate
15 impacts to certain customer classes.

16 With regard to the revenue distribution to the sub-classes within rate classes, Mr.
17 Pollock and I may also have very similar positions, but it is not entirely clear. On page 46,
18 lines 1 through 4, of Mr. Pollock's direct testimony he discusses the revenue distribution
19 to the sub-classes for the Large Lighting & Power ("LLP") rate class. For the LLP rate
20 class, Mr. Pollock's revenue distribution to the sub-classes is based on their allocated cost
21 of service. This is similar to my revenue distribution proposal. However, he does not
22 discuss or provide revenue distribution amounts or rate design revenue amounts for the
23 sub-classes of the other rate classes. If Mr. Pollock were to consistently determine the
24 revenue distribution to the sub-classes of the other rate classes, then I would expect his

1 results would be very similar to my proposed revenue distribution. Additionally, Mr.
2 Pollock does not provide revenue distribution amounts or rate design revenue amounts for
3 the sub-classes.

4 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING TIEC**
5 **WITNESS JEFFRY POLLOCK'S DIRECT TESTIMONY?**

6 A. Yes. On page 44, line 9, through page 45, line 4, of Mr. Pollock's direct testimony, he
7 discusses "low population customer classes" which include one of Nucor's rate classes.
8 While Mr. Pollock expresses concerns with low population customer classes, he does not
9 recommend any changes to these classes. I would just note that his concerns are not
10 supported by any analysis or data and should not be used to change or combine any rate
11 classes or sub-classes.

12 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE COMMISSION STAFF'S**
13 **DIRECT TESTIMONY RELATED TO THE REVENUE DISTRIBUTION TO**
14 **CUSTOMER CLASSES?**

15 A. Yes. Staff witness Adrian Narvaez's direct testimony addresses the revenue distribution to
16 customer classes. With regard to the revenue distribution to rate schedule classes and sub-
17 classes (what Mr. Narvaez refers to as class cost-of-service study ("CCOSS") classes), Mr.
18 Narvaez's and my proposals are almost identical. We both propose moving all major
19 CCOSS classes to cost-based revenue levels and rates. For three smaller CCOSS classes
20 (Cotton Gin, Oil Field-Secondary and Public Street & Highway Lighting) that would
21 receive very high rate increases if their revenues were set equal to their cost of service, we
22 both propose to cap the increase to these three customer classes. These two similarities are
23 the major two components of our proposed revenue distributions.

24 **Q. ARE THERE ANY DIFFERENCES BETWEEN STAFF'S AND NUCOR'S**
25 **PROPOSED REVENUE DISTRIBUTIONS?**

1 A. Yes, there are a few somewhat minor differences. First, we set the rate increase cap for
2 three classes differently. Staff's proposed cap is 43% while my proposed cap is 37.44%.
3 Second, we spread the revenue shortfall from the three capped classes to the other classes
4 differently. Mr. Narvaez would only spread the revenue shortfall to the other CCOSS
5 classes that are in the SWEPCO major classes that contain the capped class or classes. I
6 propose to spread the total revenue shortfall proportionately to all other customer classes.
7 Third, Staff is proposing a four-phase revenue distribution that would change rates every
8 year for four years. After the fourth phase, all customer class and sub-class revenues would
9 recover their cost of service. I recommend one revenue distribution and one set of rates be
10 approved in this case.

11 **Q. DO YOU HAVE ANY CONCERNS WITH THESE THREE DIFFERENCES**
12 **BETWEEN STAFF'S AND NUCOR'S PROPOSED REVENUE DISTRIBUTIONS?**

13 A. Yes, but no major concerns. First, the Staff's proposed 43% cap is the amount approved
14 by the Commission in SWEPCO's last base rate case, Docket No. 46449. I believe the cap
15 should be tied to the approved overall increase in this case rather than amounts from a rate
16 case using a June 30, 2016, test year. Increasing the system average percent increase
17 multiplier discussed in my direct testimony from 1.5 to 1.75 would result in a cap of
18 43.68%. Second, in my direct testimony I address problems with using SWEPCO's
19 proposed major customer classes. Staff is proposing to use those major customer classes
20 to recover the revenue shortfall resulting from capping three minor customer classes—this
21 portion of Staff's proposal suffers from some of the same problems I raised in my direct
22 testimony regarding SWEPCO's proposed major customer classes. For example, there is
23 no basis for spreading the revenue shortfall caused by applying the rate cap to the Cotton
24 Gin Service customer class to only the other customer classes SWEPCO includes in its

1 major Commercial and Industrial customer class since, as I explain in my direct testimony,
2 there is no logical or customer characteristic basis for SWEPCO's grouping of these
3 customer classes into major customer class groups. Third, under Staff's proposed four-year
4 phase-in plan, I am concerned with the very high and sudden percent rate increases for the
5 three customer classes, Cotton Gin Service, Oilfield Secondary Service, and Public Street
6 & Highway Lighting Service.

7 III. SUMMARY AND CONCLUSIONS

8 **Q. PLEASE SUMMARIZE THE CONCLUSIONS YOU HAVE REACHED AND THE**
9 **RECOMMENDATIONS YOU ARE MAKING TO THE COMMISSION.**

10 **A.** I have reached the following conclusions and recommendations:

- 11 (1) In order to achieve the objective of moving to cost based rates, the
12 Commission should adopt a revenue distribution to each individual rate
13 class, or sub-class, rather than to broad groups of customer classes.
- 14 (2) The revenue distribution methodologies recommended or utilized by
15 ETSWD, Walmart, OPUC, and CARD should be rejected.
- 16 (3) As discussed in my direct testimony, and as supported by Staff and TIEC in
17 this case, the Commission should approve a revenue distribution
18 methodology that incorporates the following basic objectives:
 - 19 a. The revenue distribution should be specific to each customer class
20 in the class cost of service study rather than to broad groups of
21 customers;
 - 22 b. The revenue distribution should result in customer class revenue
23 levels that equal their cost of service or that make a significant move
24 toward their cost of service, to the extent practical;
 - 25 c. In situations where moving completely to the cost of service results
26 in a substantial rate increase for a customer class, gradualism should

1 be applied in order to alleviate the rate increase; and

2 d. Any revenue shortfall due to applying gradualism should be
3 appropriately spread to other customer classes.

4 (4) The Commission Staff's proposed revenue distribution methodology
5 incorporates the principles listed in (3) above and, except for the four-year
6 phase-in aspect, is acceptable.

7 (5) TIEC's proposed revenue distribution methodology appears to incorporate
8 the principles listed in (3) above. However, it is not entirely clear how TIEC
9 would determine all intra-class revenue distributions.

10 (6) SWEPCO's existing rate classes should be maintained.

11 **Q. DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?**

12 **A. Yes**